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SIPDIS

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [PGOV](#) [PBTS](#) [HO](#)

SUBJECT: Honduran Gasoline Price Freeze Extended; More
Hope Sunk into Domestic Oil Exploration, PetroCaribe.

C O R R E C T E D C O P Y (REMOVED SENSITIVE CAPTION, ADDED TAGS)

REF: A: Tegucigalpa 01910
B: Tegucigalpa 01970

11. (U) Summary: The Honduran "notables" committee selected to review gas prices and investigate short and long term solutions has recommended continuing the current price freeze until October 16. What group will pay the estimated \$250,000 USD per day differential is still in doubt. Pressure to find a long-term solution has put renewed interest in Venezuela's PetroCaribe program and even sparked interest in off shore drilling, which has a long history of disappointing results and border disputes. End Summary.

12. (U) As the last gasoline price freeze recommended by the Honduran "notables" Commission (reftel A) was set to expire on Tuesday, September 27, the group recommended once again to continue the price freeze at the August 26 price of 68 Lempiras (approx \$3.60) per gallon for unleaded regular gasoline until October 16. The price freeze was initially instituted on September 7 for ten days, then extended on September 17 for an indefinite period, widely assumed to be for another ten days, though without a formal Congressional Decree specifying this.

13. (U) Cardinal Oscar Rodriguez, head of the commission, continued his more subdued rhetoric. While initially calling the large price increases "immoral" and demanding accountability, he has supported the price freezes as "temporary solutions" and called for the people to eventually "confront the reality" of higher gasoline prices. "The problem (of high gasoline prices) is not just a problem for the Government, or the Congress, or the Commission, but for all of Honduras," he said.

14. (U) At issue is who will pay the differential between the current market prices and the fixed 68 Lempira retail price, estimated at around \$250,000 USD per day. The GOH will pay the differential for the first 10 day price freeze, but its plans to have the six major gasoline distributors pay for the second ten day price freeze has met some industry resistance (reftel B). In addition, without a formal Congressional decree establishing the price freeze, foreign firms fear that the freeze could be viewed as collusive price setting and therefore as a violation of U.S. anti-trust laws. According to Texaco managers that attended a September 27 meeting with President Maduro, the GOH has specifically asked that they pay the differential only for the period covering October 3 to 16, with the GOH paying the differential up to October 12.

15. (U) President Maduro stated that if the importers do not agree to pay the differential during the latest price freeze, the GOH may use a Congressional decree to import gasoline directly and use private industry (mainly Texaco) storage facilities (on market terms). This may open the door to refined gasoline purchases from Venezuela, which would require a Caribbean port to store and distribute supplies. President Maduro has requested a meeting with Venezuelan President Hugo Chavez, and Minister of Industry and Trade Irving Guerrero plans to travel to Venezuela within the next two weeks. Texaco managers have already received specific pricing requests for the use of their facilities.

16. (U) The search for longer term solutions has also renewed interest in potential domestic oil production in waters off Honduras' Caribbean coast. Over the past 85 years, 18 oil wells have been sunk in the region, with only a few barrels of Brent-grade crude extracted. While previous industry studies have concluded the area is not sufficiently productive to justify development, calls continue to reinvestigate potential production and the GOH has announced plans to open permits for exploration. In the meantime, Nicaragua has announced plans to concession oil exploration rights off its Atlantic coast, including in waters north of the 15th parallel. Honduras has a competing claim to these waters, and has publicly announced that any oil concessions granted in the contested waters

would be legally null and void. This maritime border dispute with Nicaragua, going on since the early 1980's, is now in the hands of an international court.

17. (U) Comment: The third in the continuing series of gasoline price freezes is the GOH's latest attempt to avoid social strife while hoping that world gasoline prices will come down before the November 27 presidential elections. Publicly, the GOH appears to be using this extension to drive home the message that high gasoline prices are out of their control and could continue for the foreseeable future. Commission member Cardinal Rodriguez, whose early strong reaction against the price increases helped foment the social opposition and sparked widespread taxi strikes and street blockages on September 6 and 7, has moderated his recent remarks, warning the public that higher prices are likely in the offing. History would suggest that drilling for oil in the historically unproductive Honduran offshore is unlikely to yield much (and certainly not in the short term), but today's historically high prices for crude oil significantly expand the definition of an economically viable oil well. To date, Post is aware of slight interest by oil companies in exploring in Honduras, but Post will continue to follow developments with interest. Post assesses the GOH engagement with Venezuela and its PetroCaribe initiative as little more than political theatre, but will watch that relationship closely. End Comment.

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